

Financial results briefing for the Q1 of FY2019

Strong Q1 results raises visibility to achieve full year guidance;
OP up over 30% YoY

February 14, 2019

GMO Payment Gateway, Inc.
(3769: Tokyo Stock Exchange Section-1)

The 56th IR Meeting

GMO PAYMENT GATEWAY

<https://corp.gmo-pg.com/en/>

A cautionary note about the contents of the document

The contents of this document are based on generally recognized economic and social conditions, as well as assumptions judged to be reasonable by GMO Payment Gateway as of February 14, 2019.

However, please note that they are subject to change without prior notice in the event of changes in the business environment or other unforeseen occurrences.

Agenda

1. Summary of financial results for Q1 FY2019
2. Future initiatives and growth strategy
3. Financial highlights
4. Reference materials

1. Summary of financial results for Q1 of FY2019

1.1 Financial Results Summary

OP up 30.2% YoY, Q1 TRX value also up 31.4% to exceed JPY 1 trillion

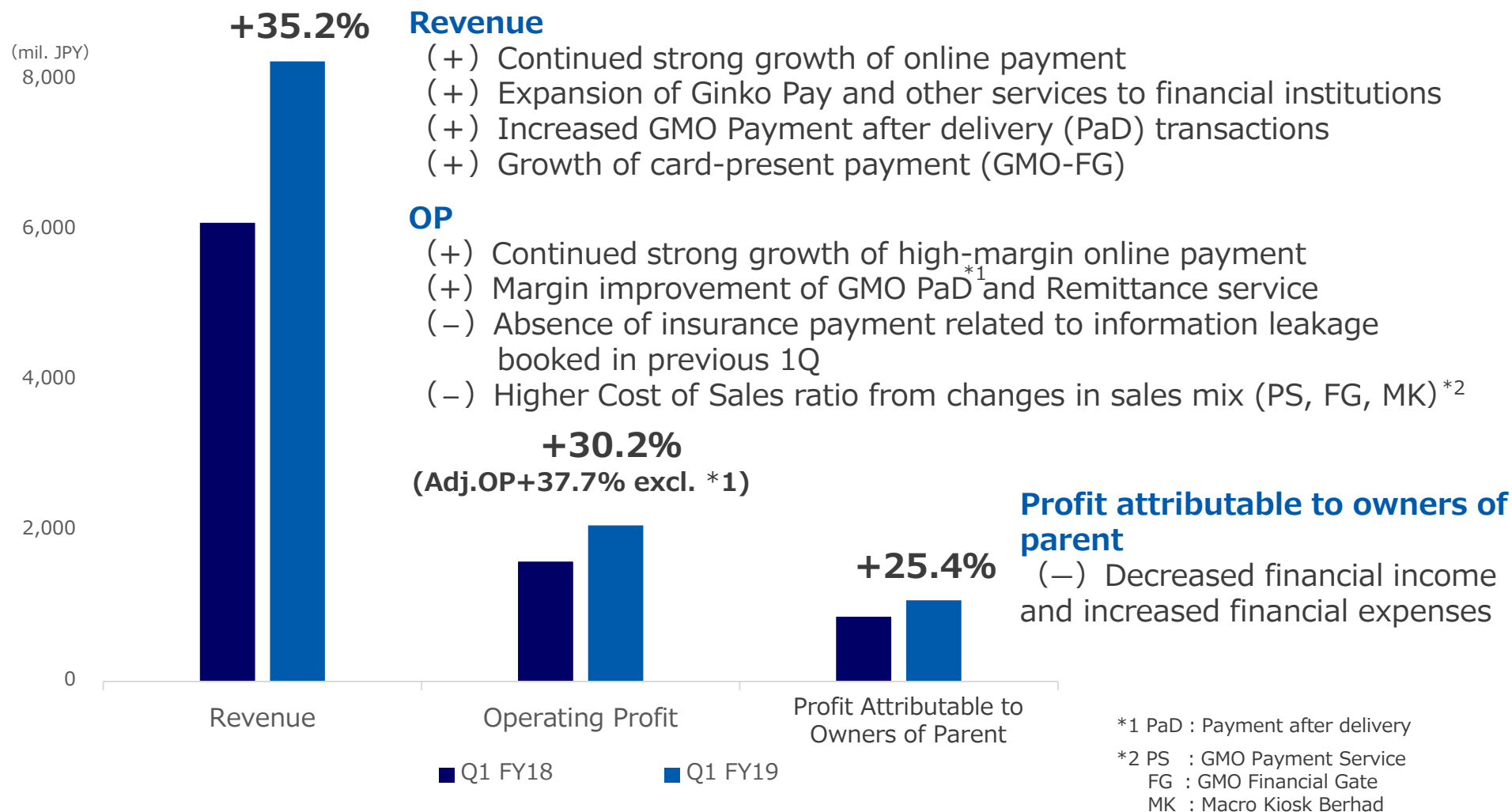
| (mil. JPY) | <u>Q1 FY18 Actual</u> | <u>Q1 FY19 Actual</u> | <u>% YoY</u> | <u>FY19 Full Yr Guidance</u> (H1 Guidance) | <u>% Progress vs FY19 Guidance</u> (vs H1 Guidance) |
|---|---------------------------|---------------------------|--------------|---|--|
| Revenue | 6,098 | 8,246 | + 35.2% | 31,850 (15,202) | 25.9% (54.2%) |
| Operating Profit | 1,594 | 2,076 | + 30.2% | 8,300 (4,150) | 25.0% (50.0%) |
| Profit attributable to owners of Parent | 860 | 1,079 | + 25.4% | 5,106 (2,424) | 21.1% (44.5%) |
| EBITDA ^{*1} | 1,805 | 2,319 | + 28.5% | - | - |

| | Operating Merchants (end-Q1) | TRX Volume (Q1) | TRX Value (Q1) |
|-------------------|---------------------------------|-------------------------------|--------------------------------|
| KPI ^{*2} | 112,341 (+ 30.4%) | Approx. 400 mil. (+ 29.7%) | Approx. JPY 1 tr. (+ 31.4%) |

^{*1} EBITDA = OP + Depreciation ^{*2} Physical payments excluded, () indicates YoY changes.

1.2.1 Factors affecting earnings

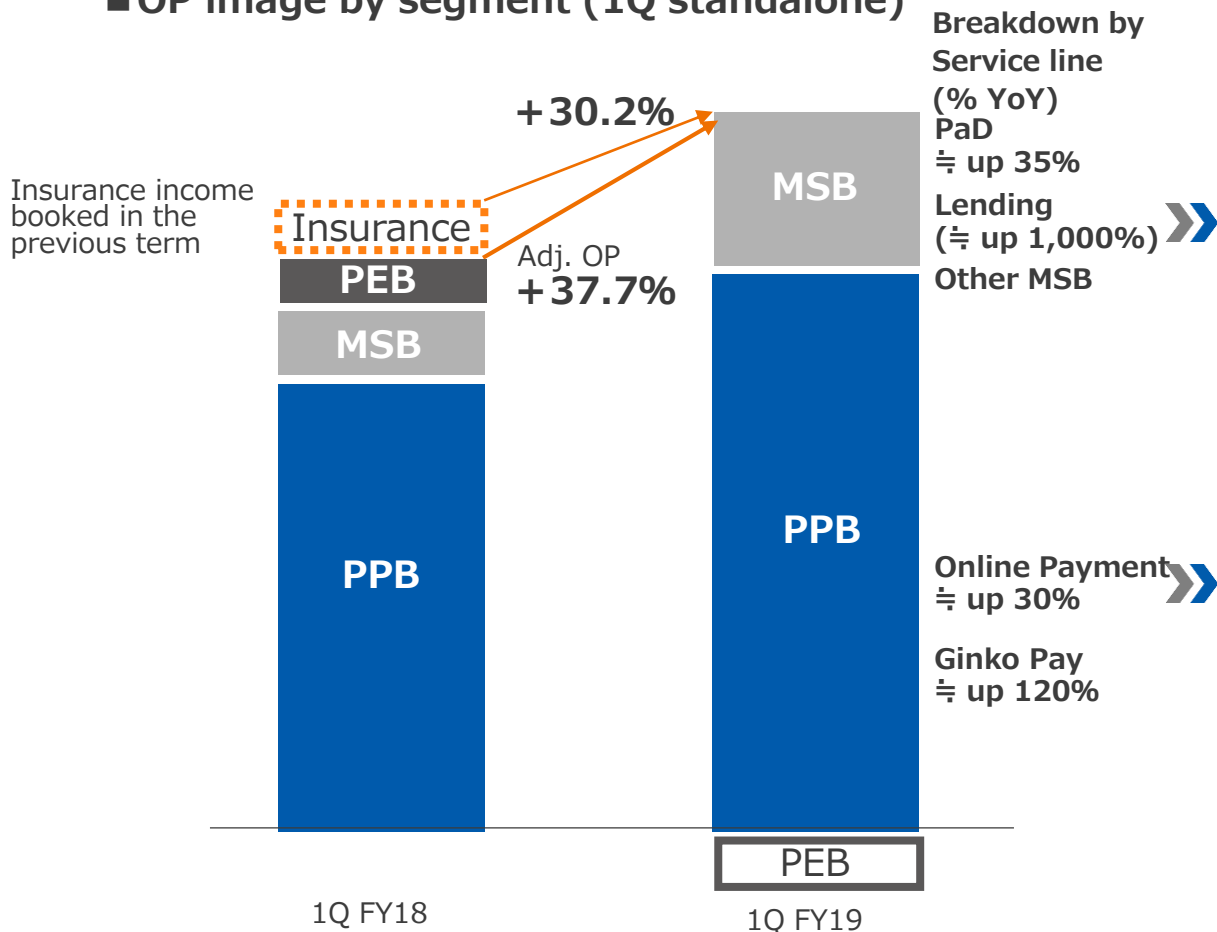
Adj. OP increased 37.3% YoY



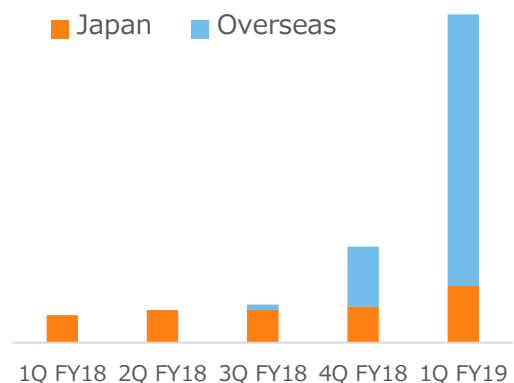
1.2.2 Factors behind to 37.7% adj. OP growth

Growth driven by strong online payment and lending service

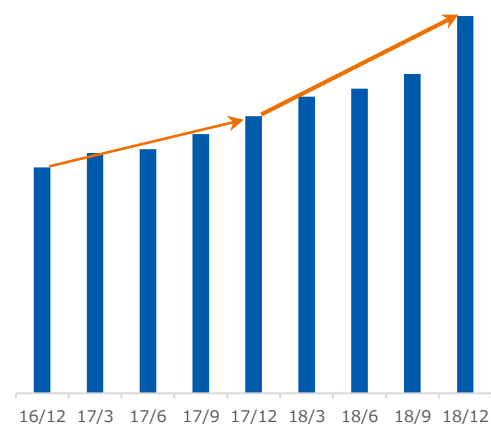
■ OP image by segment (1Q standalone)



■ Overseas & Domestic Lending service



■ Online payment revenue



PPB: Payment Processing Business, MSB: Money Service Business, PEB: Payment Enhancement Business
PaD: Payment after delivery

1.2.3 What we said back in Nov. 2012...

GMO PAYMENT GATEWAY

4.2 EC market

Agenda

1. Company Overview

2. Business Context

3. Our features

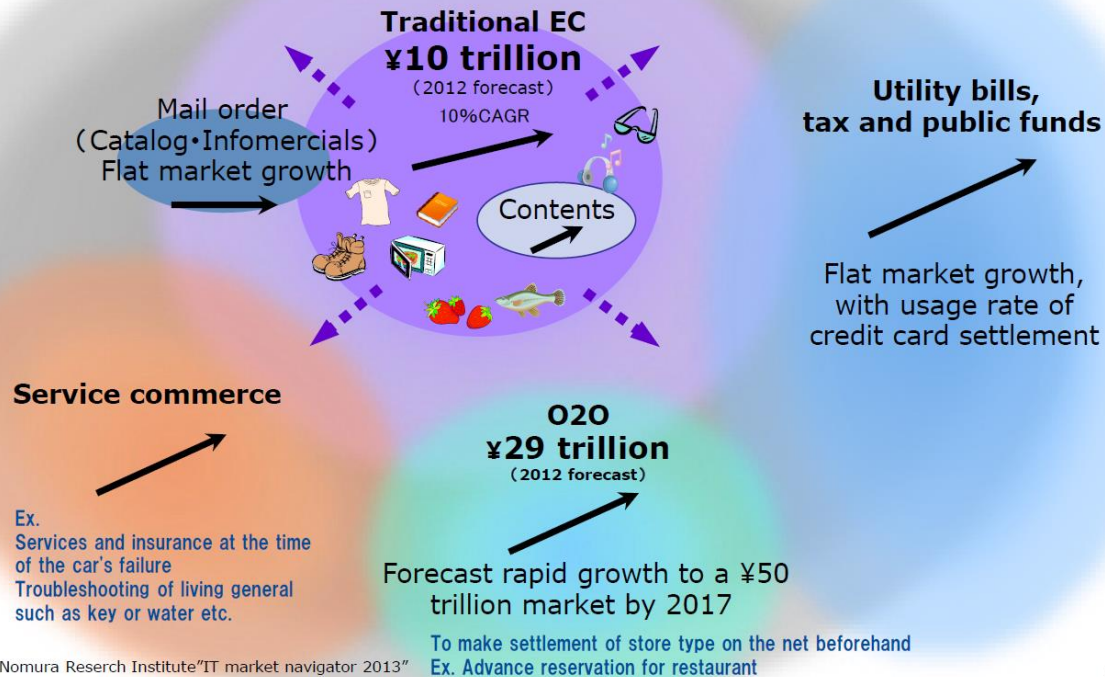
4. Strategy

5. Supplement

Rapid growth of new fields exceeding the traditional EC market

The broadly defined EC market, including taxes/public funds, and online migration of various payments

Online field



TSE: 3769

GMO PAYMENT GATEWAY

Reference: Nomura Research Institute "IT market navigator 2013"
METI "EC market research 2011", GMO-PG forecast

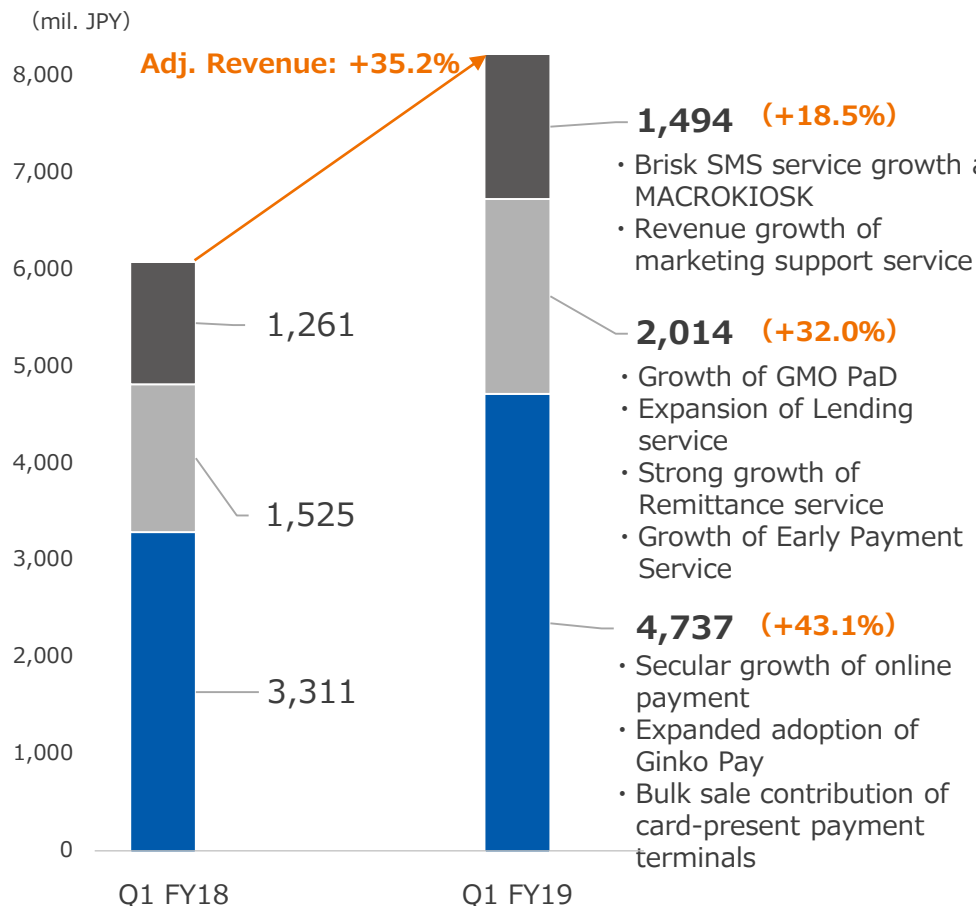
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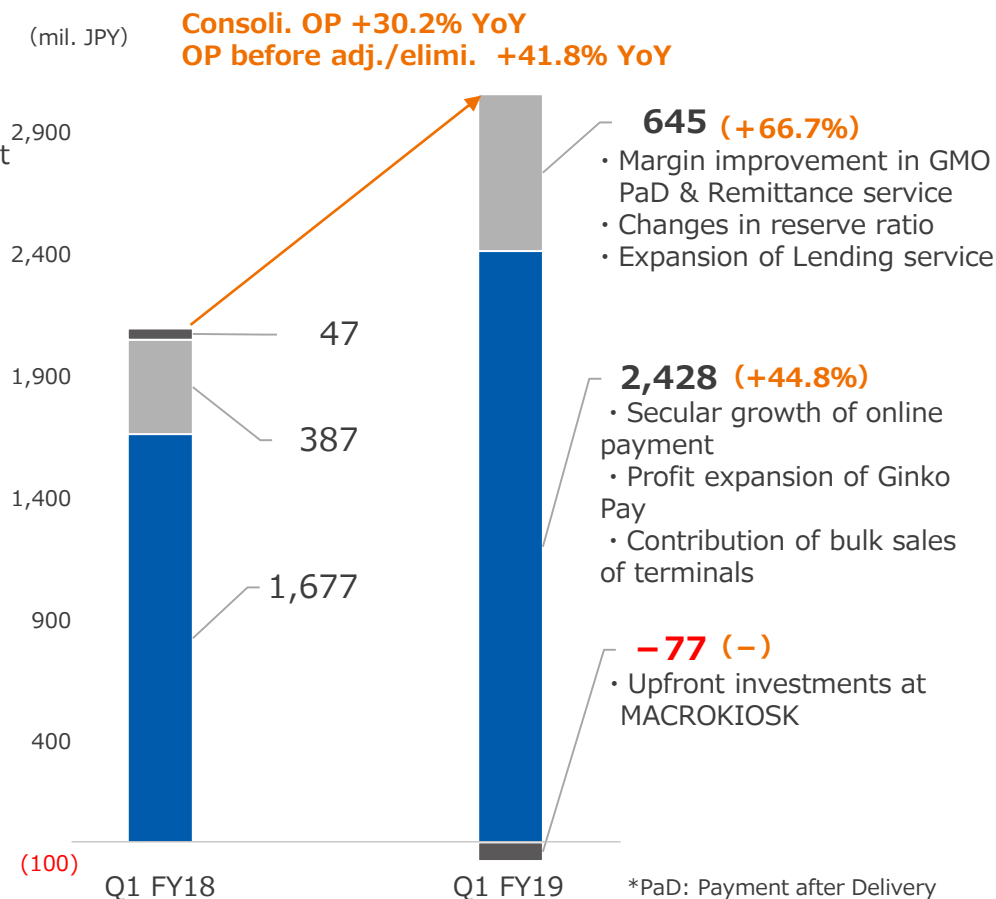
1.3 Segment Revenue and OP

Payment Processing & MSB grew strongly; strategic losses at Payment Enhancement from upfront investments

■ Segment Revenue

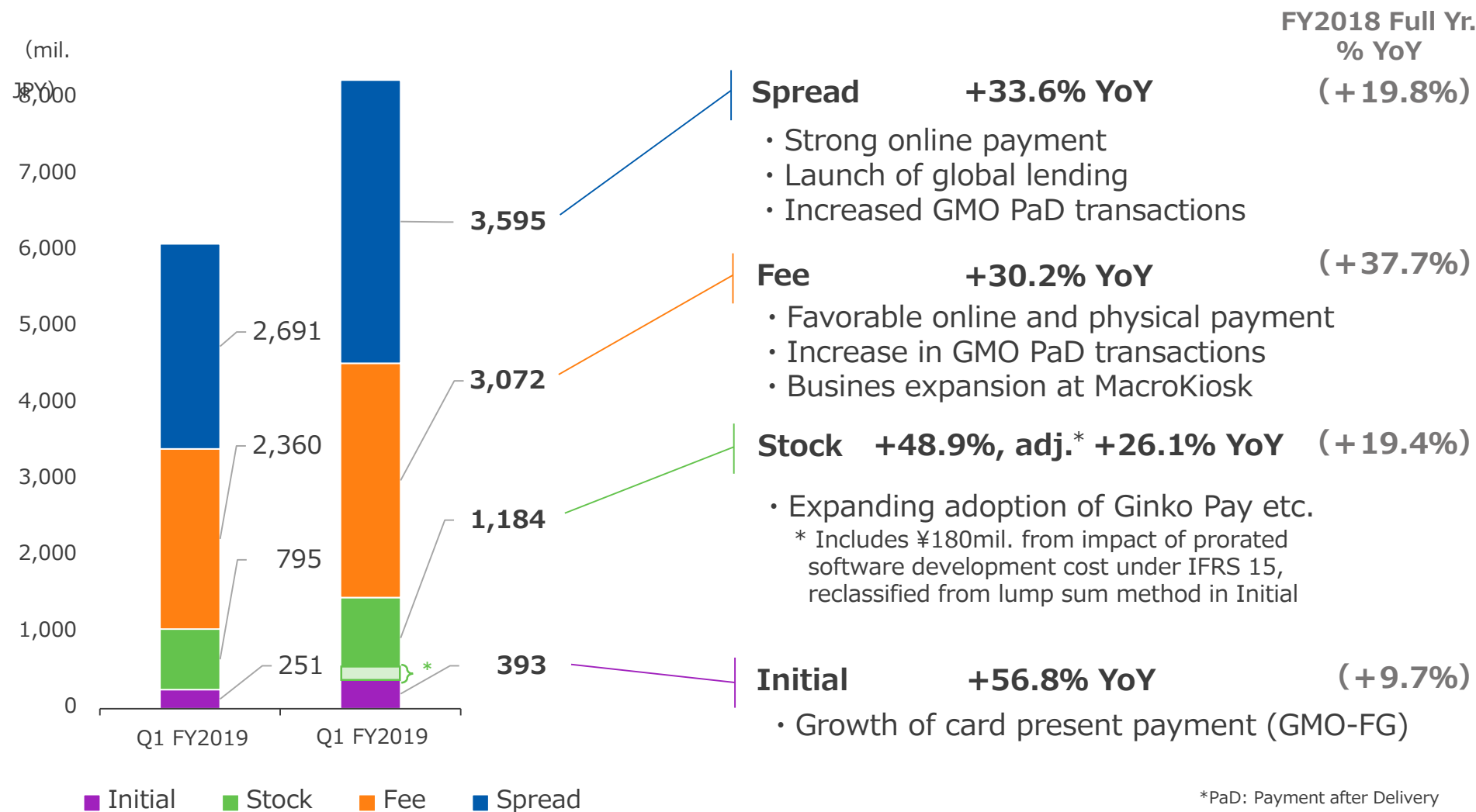


■ Segment OP before adjustments & eliminations



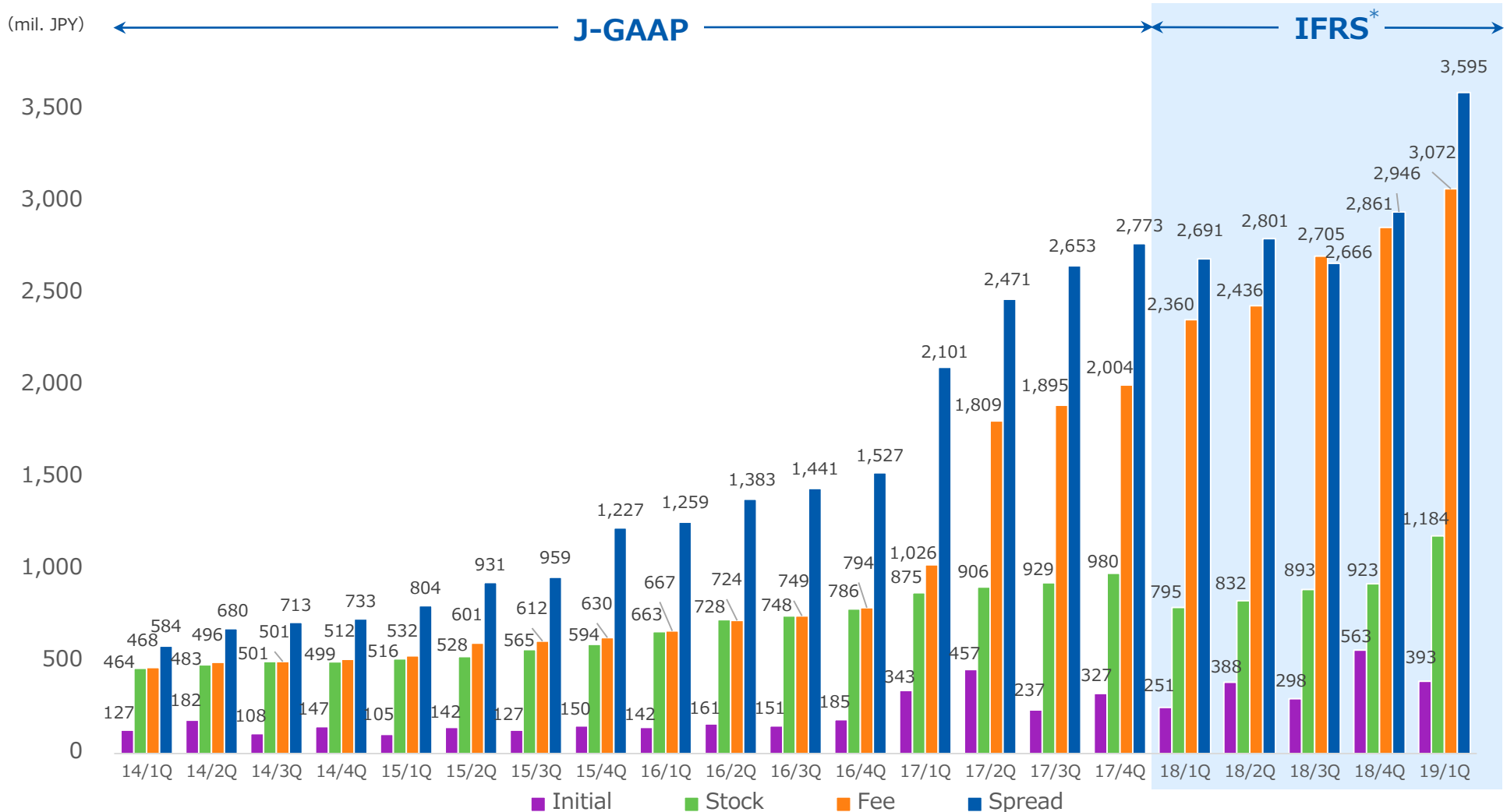
1.4.1 Revenue breakdown by business model

Over-25% YoY growth across all business models



1.4.2 Revenue breakdown by business model

Quarterly Revenue trend by business model

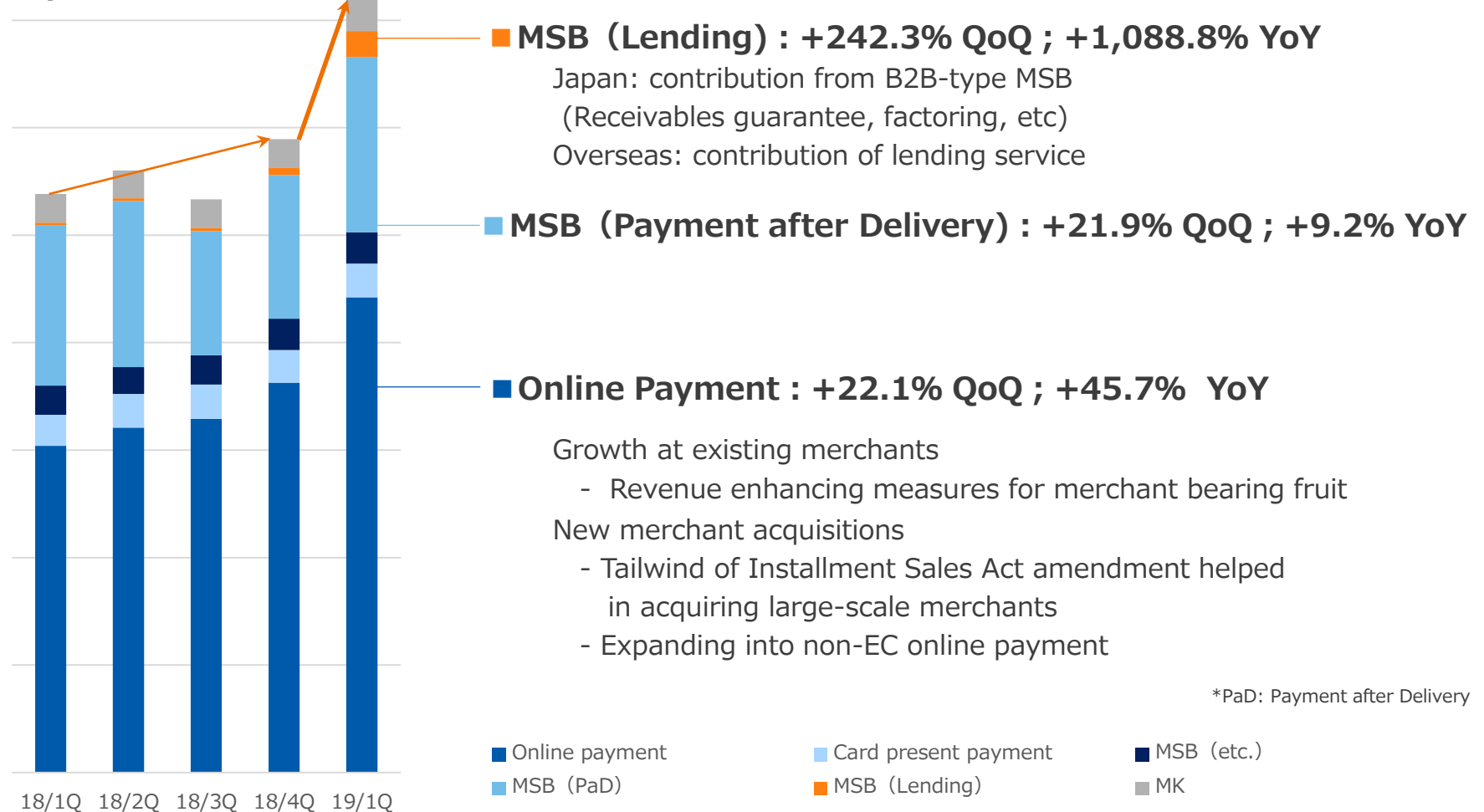


* Revenue recognition has been changed from gross to net method for online advertising service (Stock) and finance lease (Spread) due to IFRS adoption.

1.4.3 Spread business model

Growth acceleration from expanding online payment and lending service

Spread revenue trend

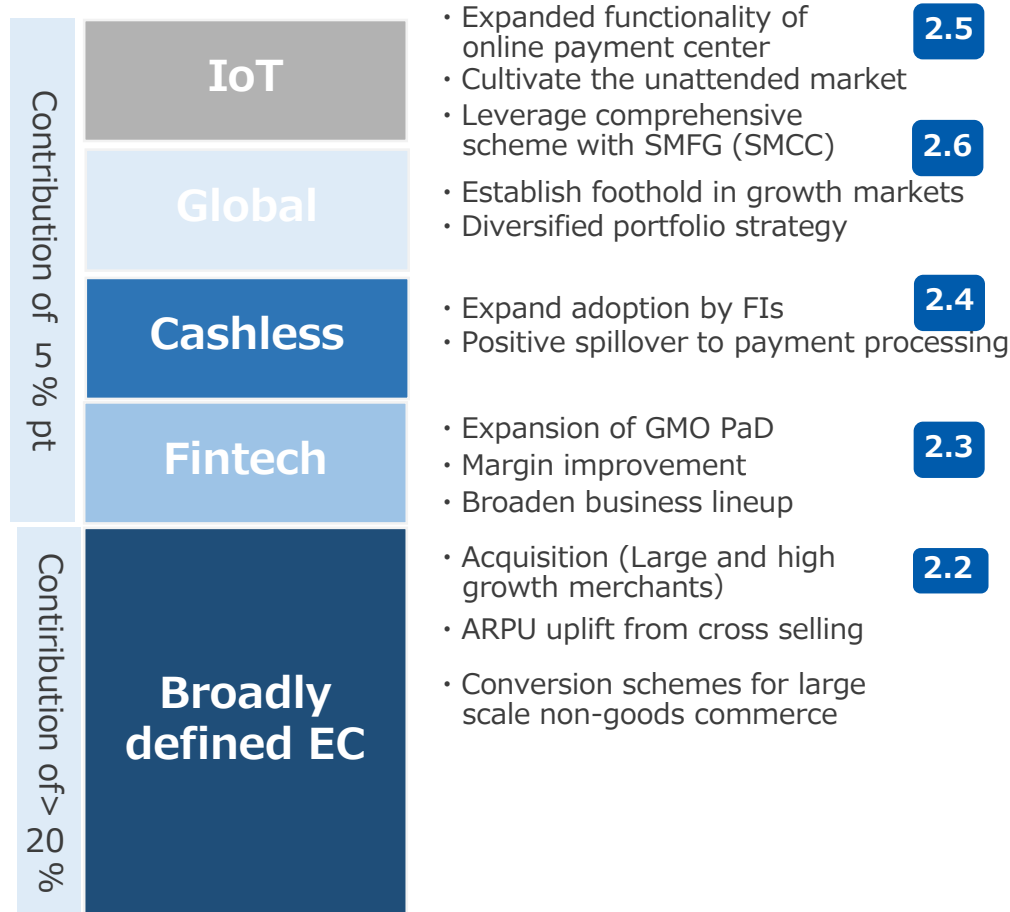


2. Future Initiatives and Growth Strategy

2.1 Focused product portfolio to drive growth

Pursue growth in the 5 focus areas to achieve FY2025 OP ¥25bn

Breakdown of 25% CAGR growth by theme:



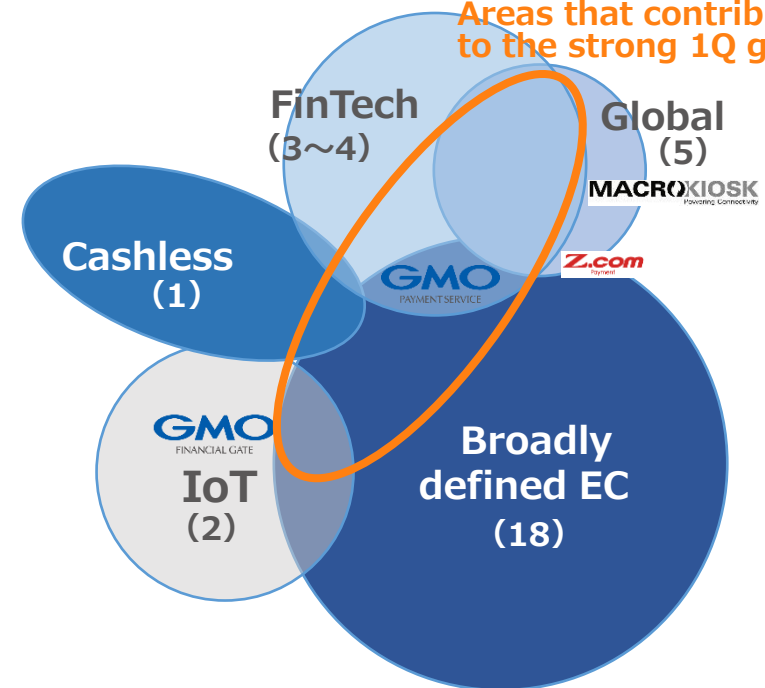
*SMFG : Mitsui Sumitomo Financial Group
SMCC : Sumitomo Mitsui Card Co. Ltd.

Overlap of the 5 focus areas

Figures in bracket show 2025 OP image of each focus area

(unit: ¥ billion)

Areas that contributed to the strong 1Q growth

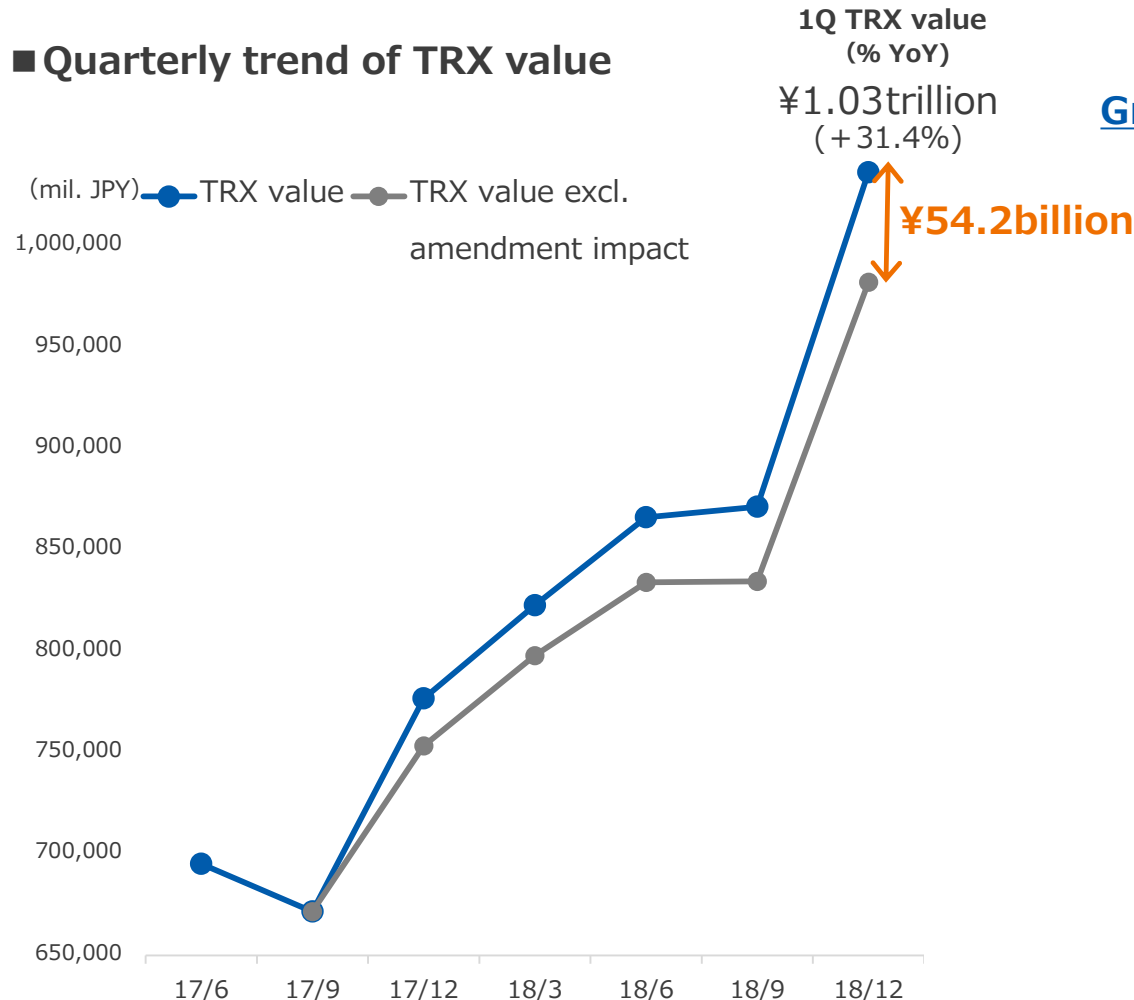


*FI : Financial Institution
PaD: Payment after Delivery

2.2.1 EC: Initiatives to expand footprint

New wins thanks to Installment Sales Act amendment and accelerated growth of TRX value from capturing non-merchandise EC market

■ Quarterly trend of TRX value



Growth factors

Acquired large-scale merchant on back of Installment Sales Act amendment

<Examples of recent new merchants>

- Major cosmetic brand Company S
- Major Business Hotel operator Co. A
- Major Apparel Retailer Co. U
- Major Foreign-capital Insurance Co. A
- Major Talent Management Co. A

New merchants acquired in the EC service domain

- Fixed charge car rental
- SNS-based tip service
- Membership fee collection for fitness gym

2.2.2 EC : Next Gen Payment Platform

Basic agreement with SMCC, Visa's participation will jointly leverage our collective strengths

Negotiations start
8th May 2018



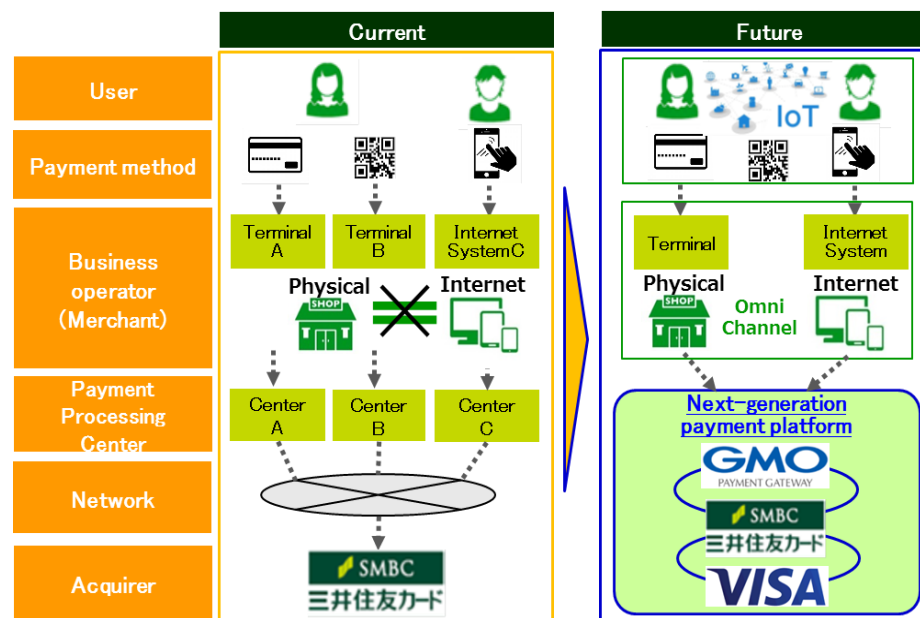
Basic Agreement
Feb. 12th 2019



Development & rollout of
One Stop Payment service



Establish cashless payment
environment with world-
class safety and security



*SMFG : Sumitomo Mitsui Financial Group Inc. SMCC : Sumitomo Mitsui Card Co. Ltd. VISA : Visa Worldwide Japan Co. Ltd.

2.3 FinTech: Assets and profit growth

Margin improvement of GMO PaD; rapid growth of global lending

Growth strategy

① GMO PaD

- Expand merchant footprint and TRX value

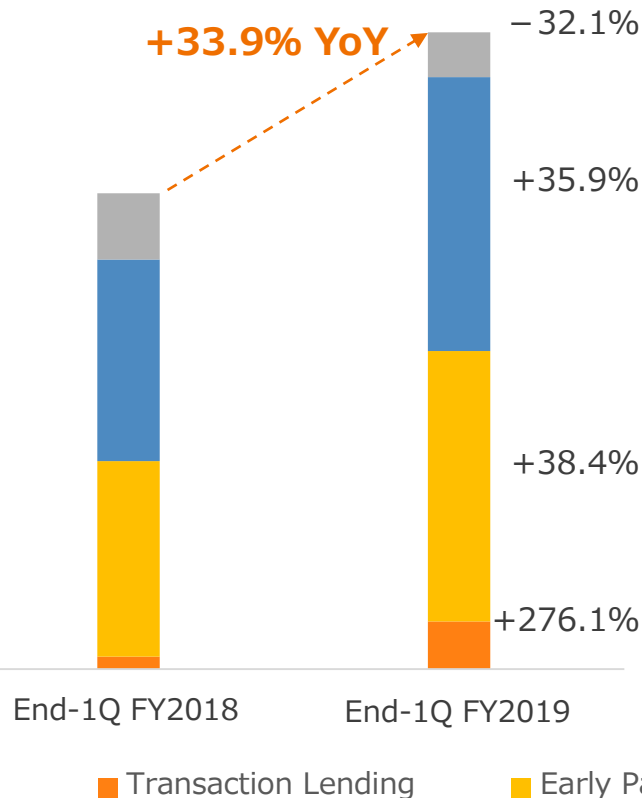
② Margin Improvement

- Accumulate and Analyze payment data
- Deploy AI

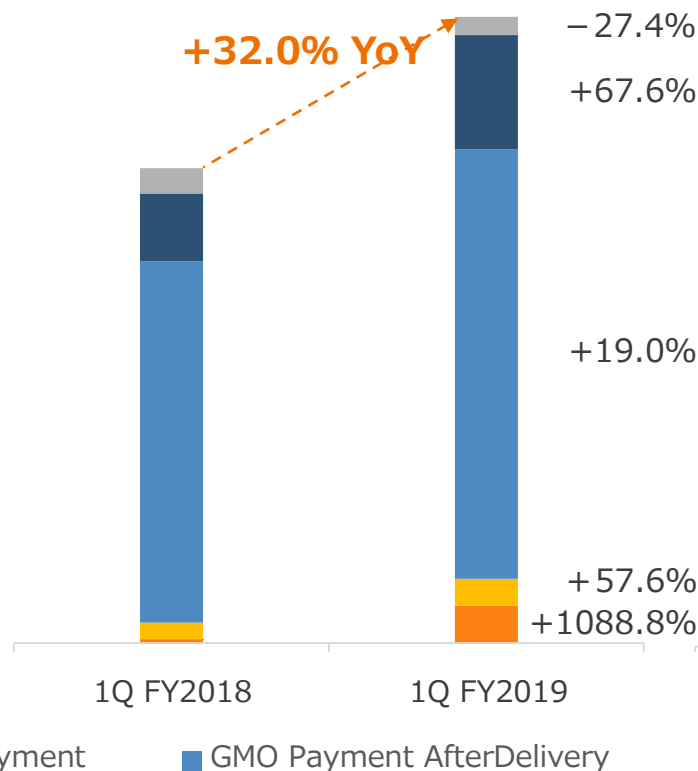
③ Expand service line-up

- B2B type MSB services, etc

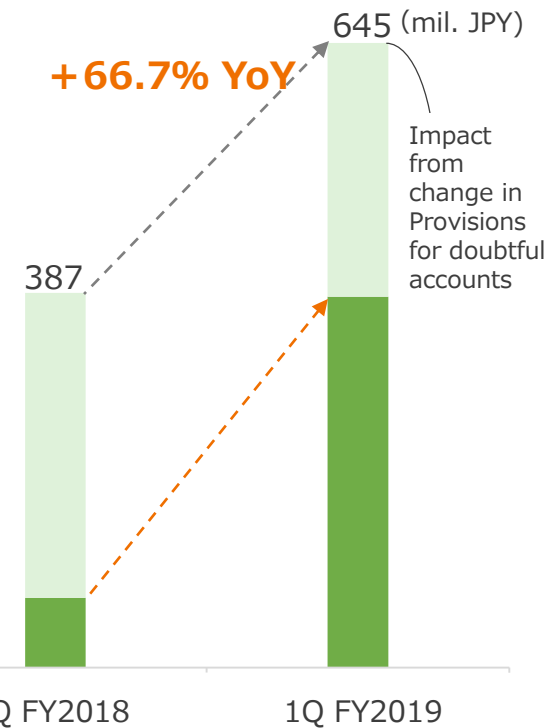
■ MSB-related assets



■ Segment Revenue



■ Segment OP



*PaD: Payment after Delivery

2.4 Cashless: Growth of stock business model

Ginko Pay adopted by 11 Banks;

Expand revenue source through linkups with existing services

Growth Strategy

① Expand Bank adoption

② Create feedback loop to payment

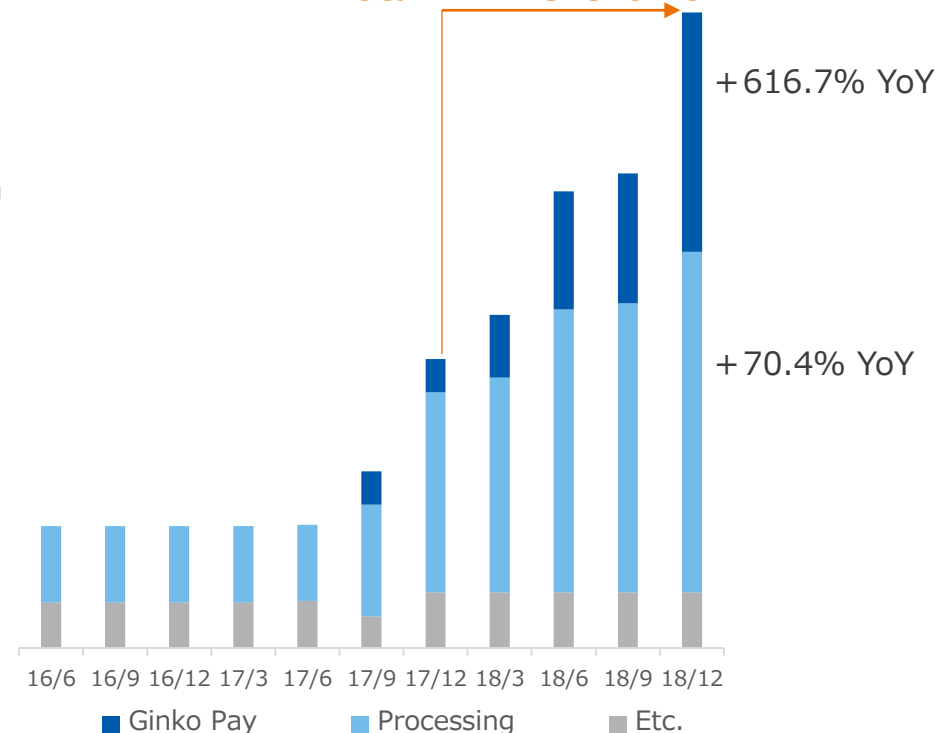
- Build Fee model by linking with existing merchants

■ Banks adopting Ginko Pay
(includes pre-rollout Banks too)

■ Stock Revenue from FI-related businesses



Total: +119.8% YoY



*FI :Financial Institution

2.5 IoT/Card Present Payment: Growth acceleration

Expand Center functionality for Stock/Fee/Initial revenue capture

Growth Strategy

① Expand Settlement Processing Center functionality to enable large merchant acquisitions

- Targeting major electronics retailer, department store
- Accelerate fee & spread revenue growth

② Unattended payment market

Target: vending machines, ticket machines, fare adjustment machines, etc.

Nos. of cumulative terminals installed

| End-Sep 2018 | End-Dec 2018 | YoY |
|--------------|--------------|-------|
| 3,675 units | 8,534 units | 2.3 x |

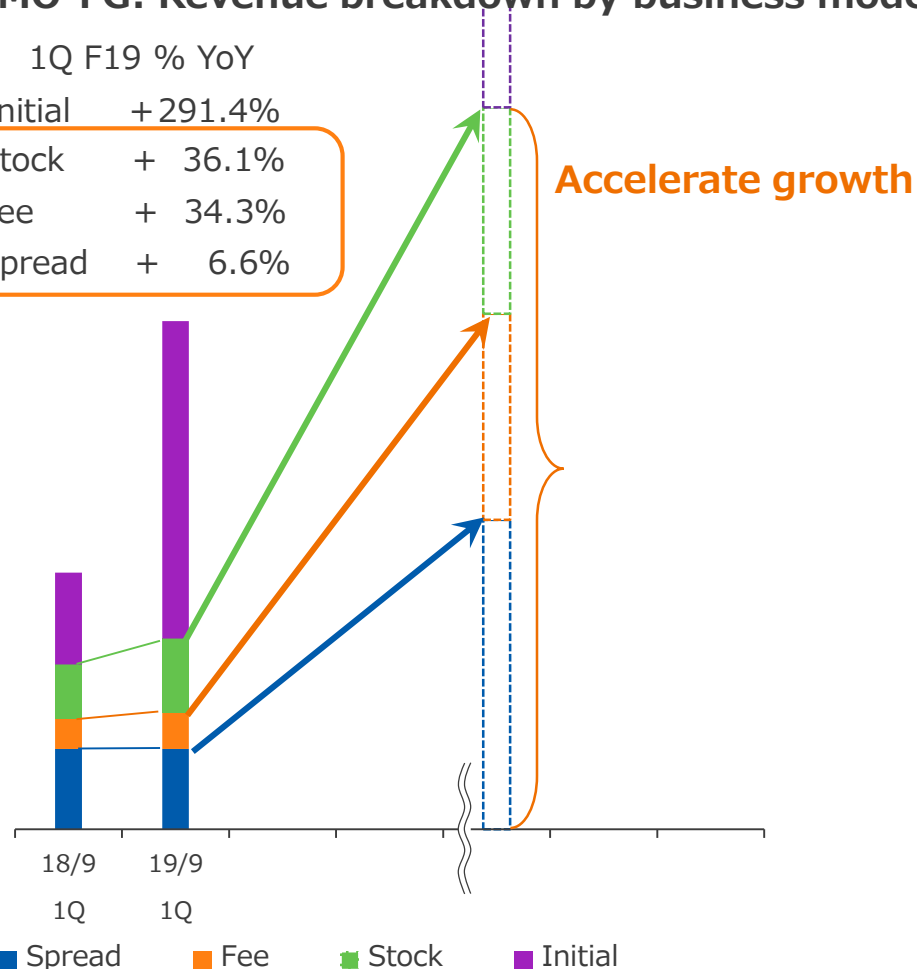
③ Comprehensive partnership with SMFG (SMCC)

- To create the next-gen payment platform with participation of VISA

■ GMO-FG: Revenue breakdown by business model

1Q F19 % YoY

| | |
|---------|----------|
| Initial | + 291.4% |
| Stock | + 36.1% |
| Fee | + 34.3% |
| Spread | + 6.6% |



*GMO-FG : GMO Financial Gateway

2.6 Global: 1Q performance and growth strategy

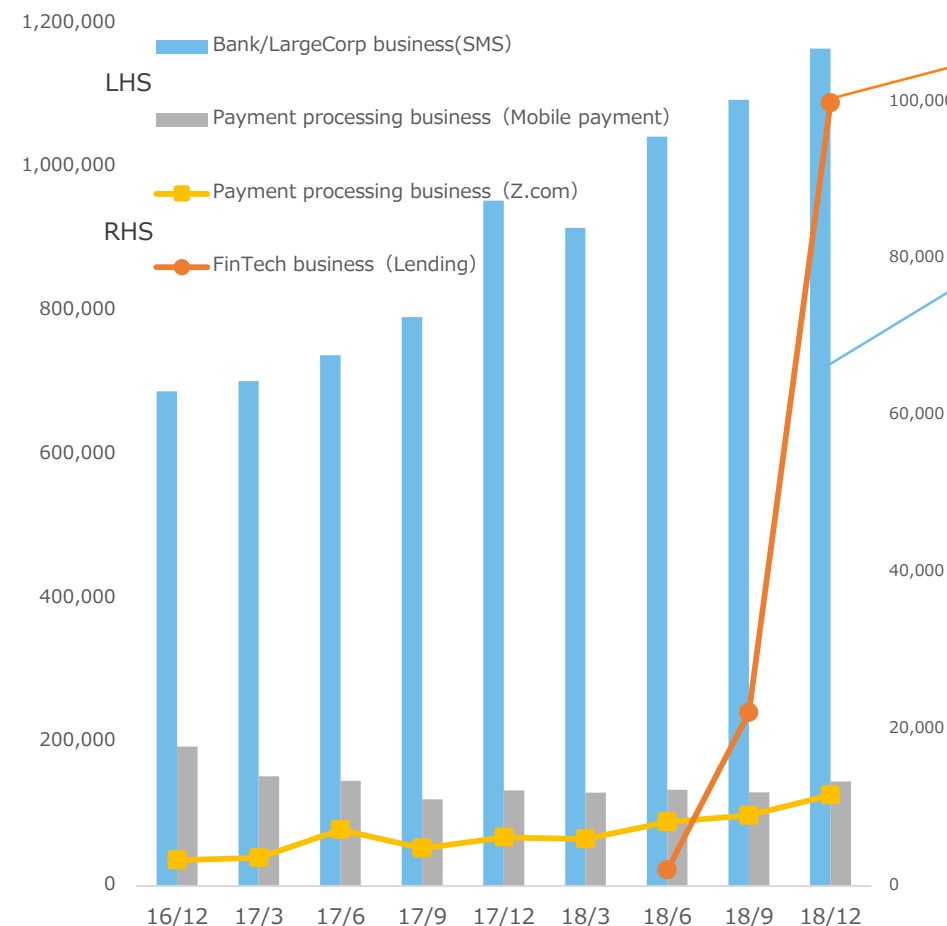
Further diversify overseas portfolio; establish foothold for payment business

■ Global Business quarterly revenue by business line

(unit: '000 JPY)

(unit: '000 JPY)

1Q Topics



US: Lending turned a profit

Vietnam: Focus to expand Bank/LargeCorp businesses (OTP*by SMS, etc)

Medium Term Growth Strategy

- ① **Increase Loan Book**
 - Target ¥ 10bn by End of FY2020
- ② **Portfolio diversification**
 - Hedge against country risk, company exposure
- ③ **Create foothold for Payment business launch**
 - Timely investments in promising fintech ventures in order to realize our double-pronged strategy of investments and synergy with the payment business

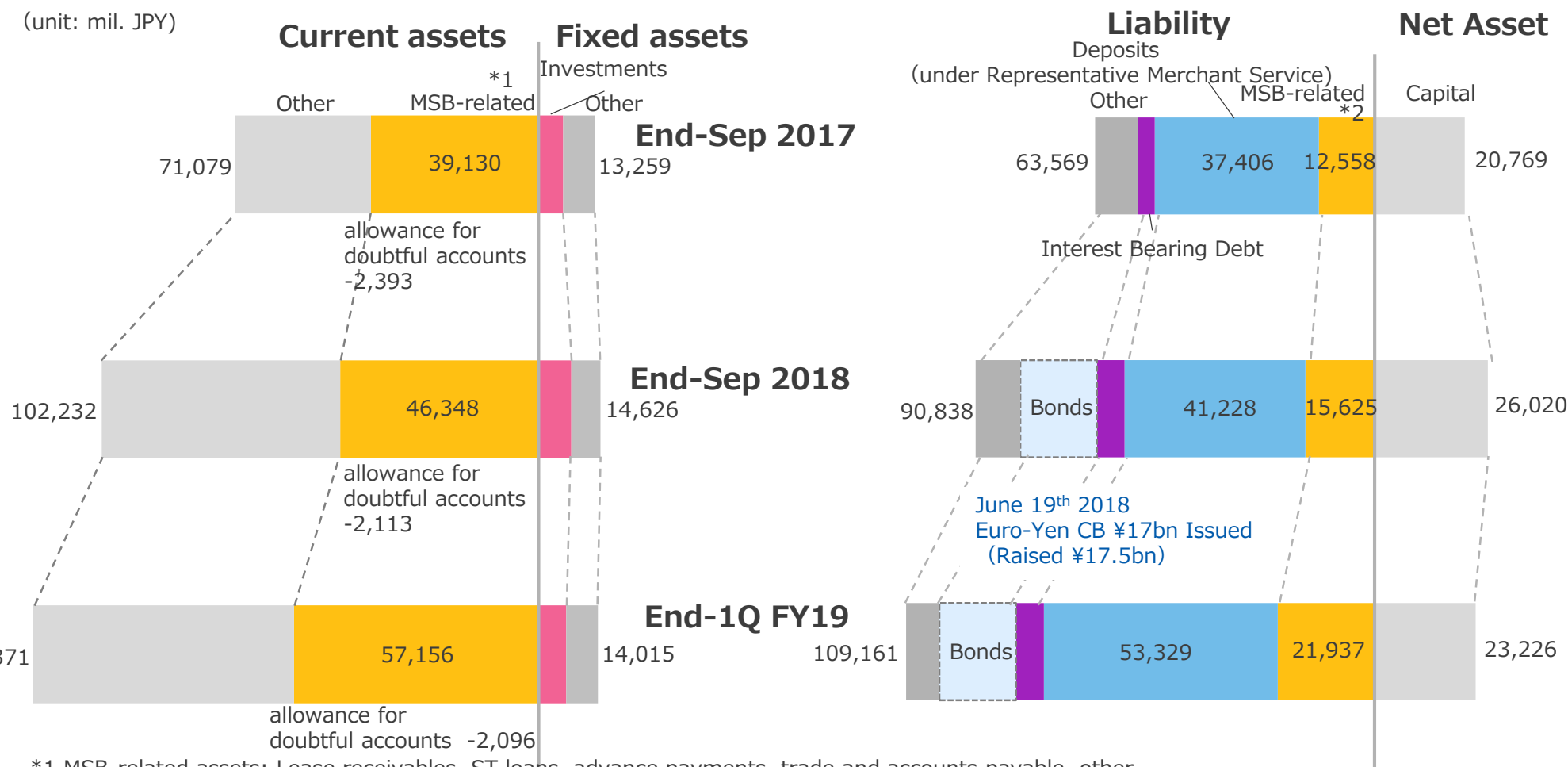
*OTP: One Time Password; mainly used in Bank apps and mobile payment.

3. Financial Highlights

3.1 Balance Sheet changes

Increase in deposits received and MSB-related assets; capital raised through Euro-Yen CB Issue

(unit: mil. JPY)



*1 MSB-related assets: Lease receivables, ST loans, advance payments, trade and accounts payable, other.

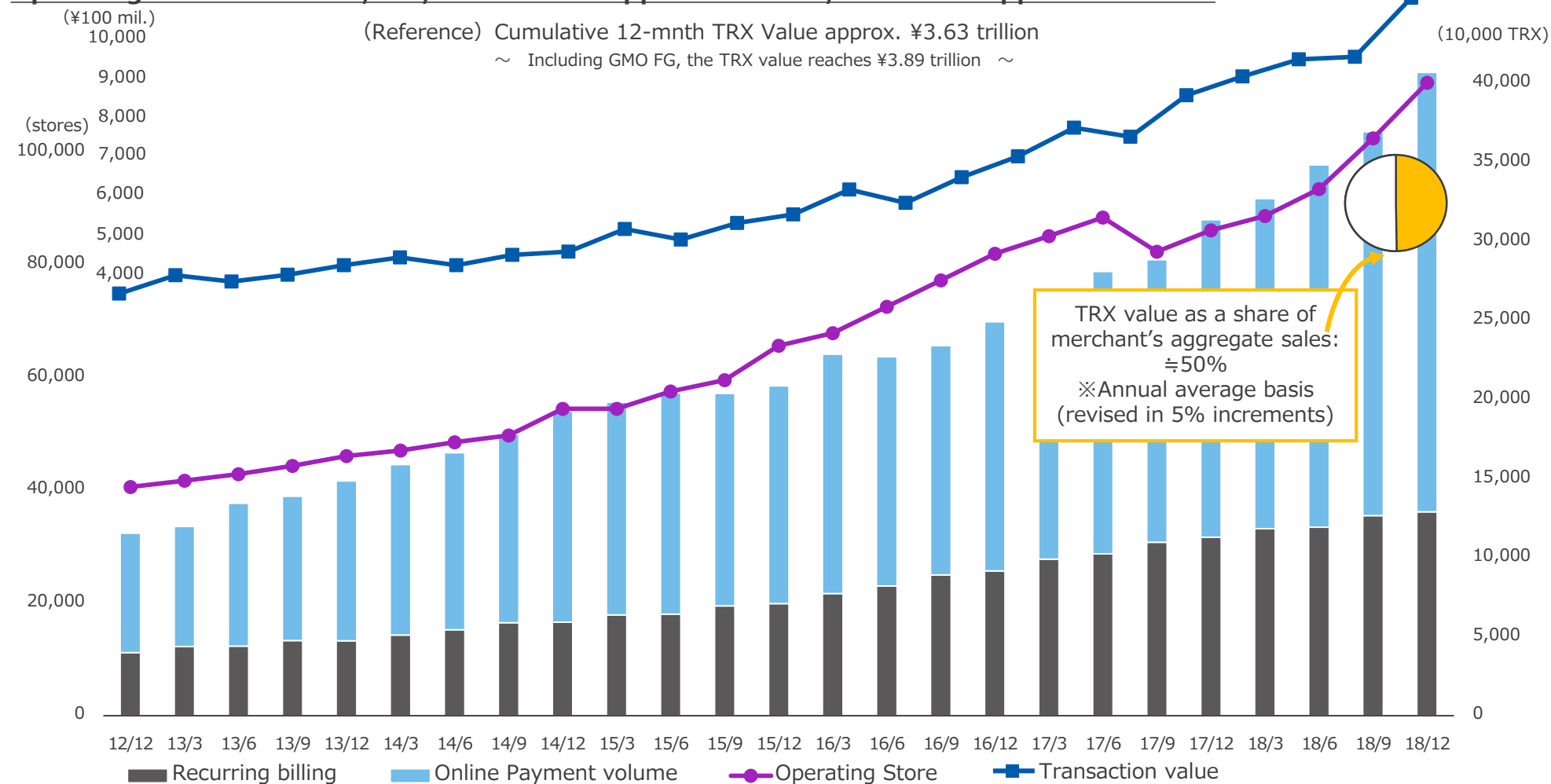
*2 MSB-related liabilities: accounts payables, expenses accrued

*3 Some amounts are recognized as the net amount of financial assets and financial liabilities.

3.2 Major Quarterly KPIs

Group-wide annual TRX value reaches ¥3.8 trillion

Operating merchants: 112,341, TRX volume approx. 400 mil., TRX value approx. 1 trillion.



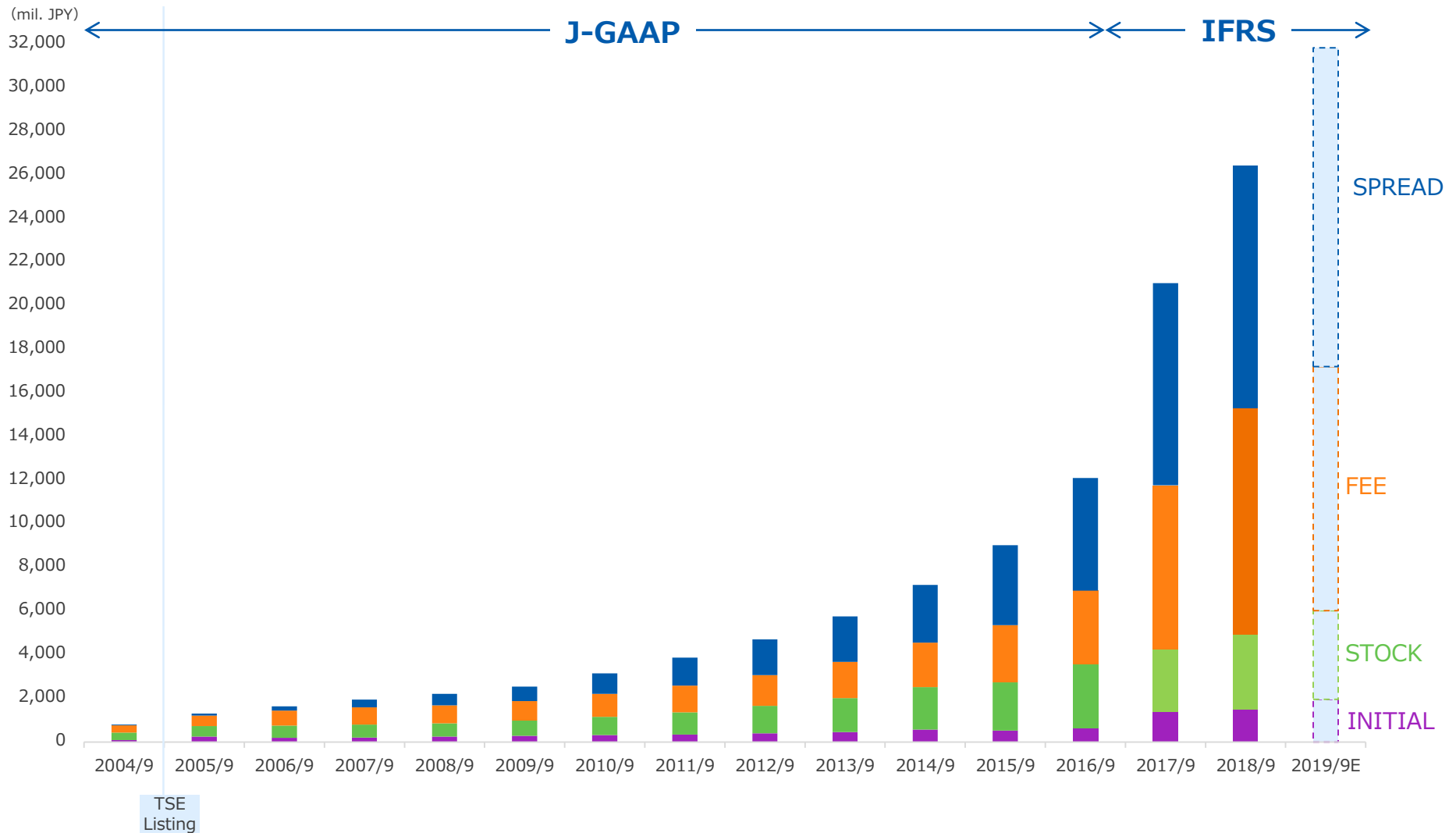
* The number of merchants dropped QoQ in end-Sep, due to a service termination by a partner, causing the suspension of services to merchants

* Number of operating merchants are measured at end-of-quarter, while TRX value and volume are the total for the respective quarter.

4. Reference materials

4.1 Revenue trend by business model

Pursue balanced growth of each business model

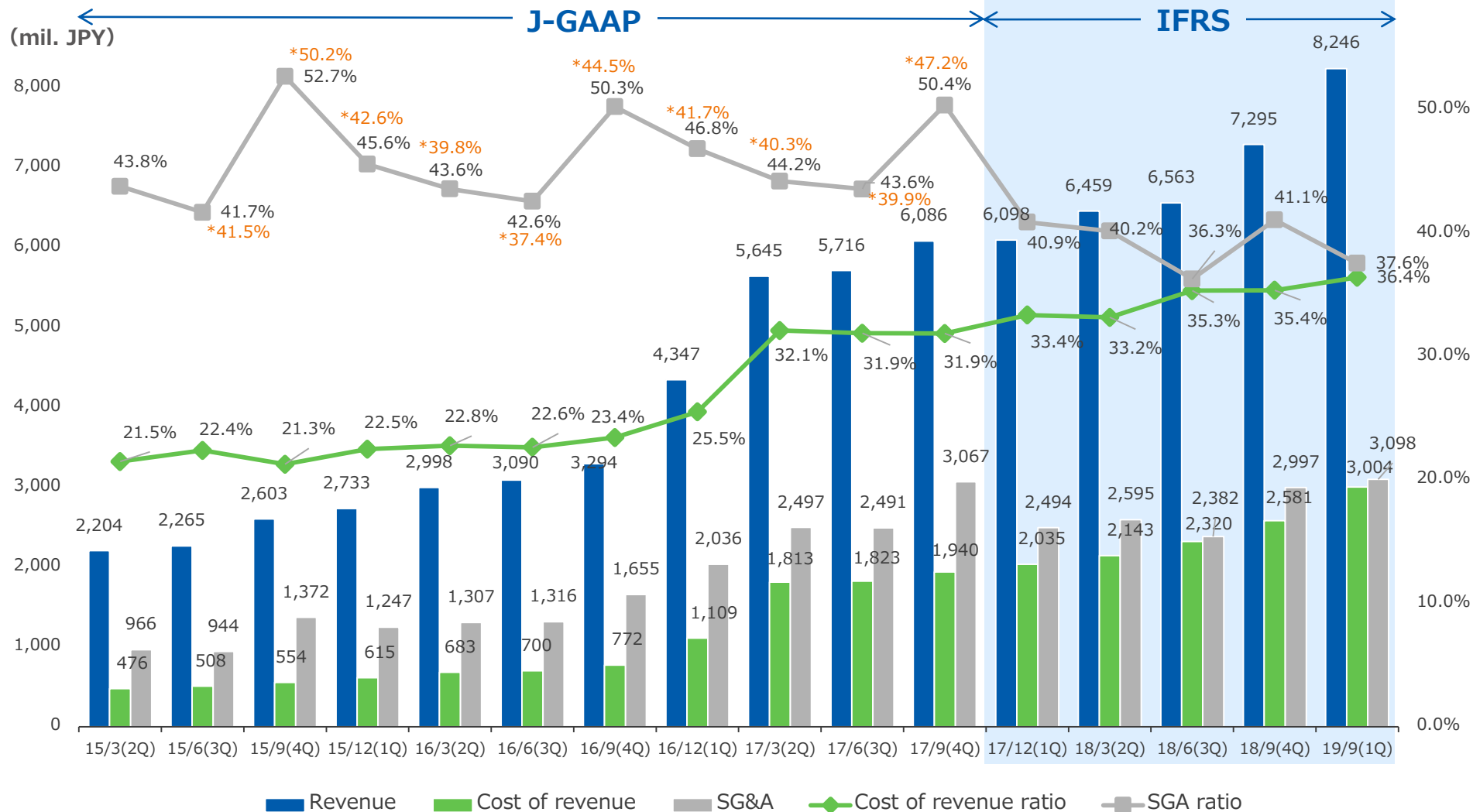


4.2.1 Quarterly trend of CoS and SGA ratio

CoS ratio fluctuates with changes in sales mix

*Figures with asterisk exclude outsourcing expense related to MSB.

These outsourcing expenses are not booked in SG&A from Q1 FY2018 due to IFRS adoption.

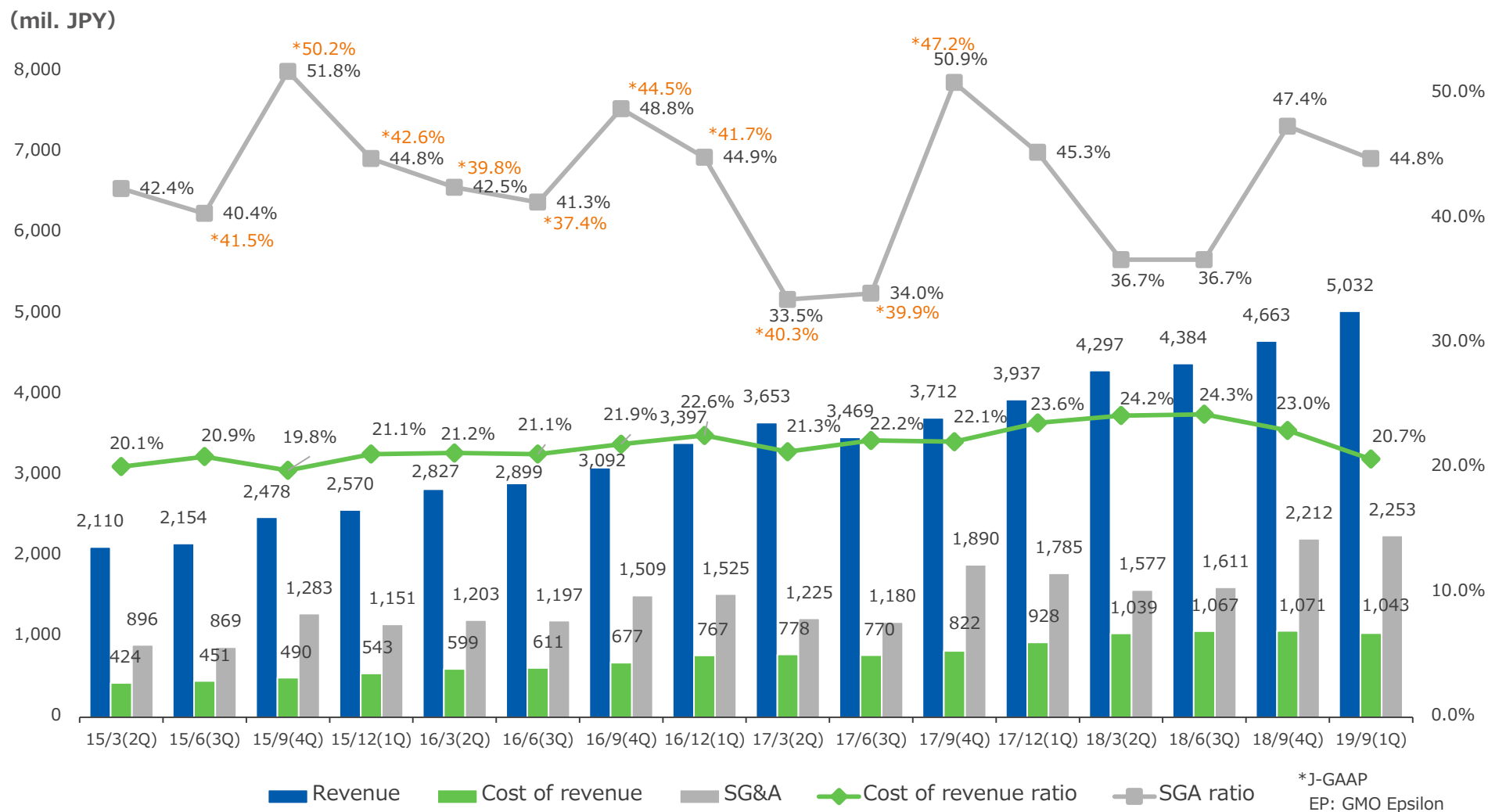


4.2.2 Quarterly trend of PG and EP's CoS and SGA ratio

CoS ratio fluctuates with changes in sales mix

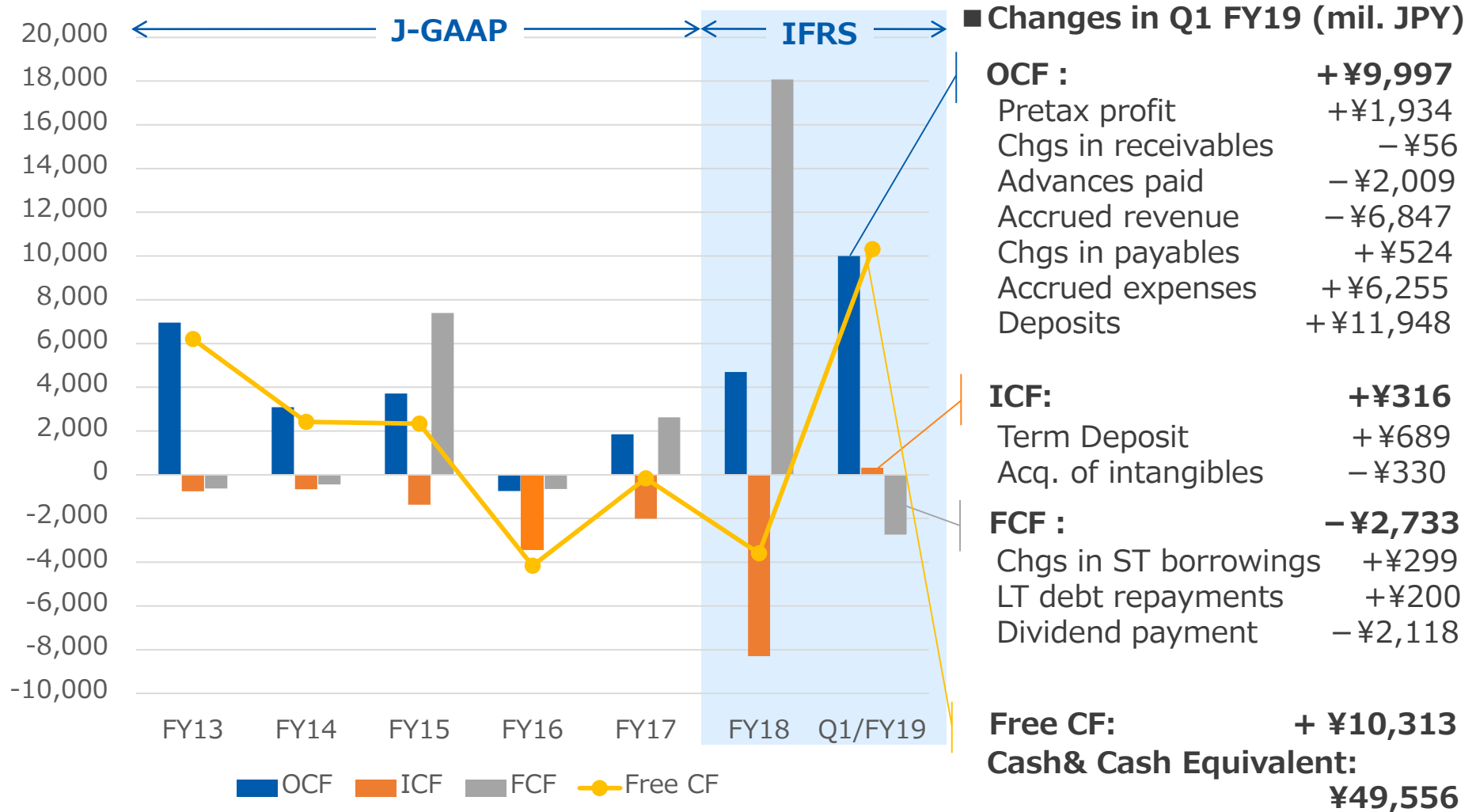
*Figures with asterisk exclude outsourcing expense related to MSB.

These outsourcing expenses are not booked in SG&A from Q1 F2017 due to IFRS adoption.



4.3 Consolidated CF Statement

Positive Free Cashflow from earnings and deposit growth



Thank You Very Much



GMO Payment Gateway, Inc.

(3769; Tokyo Stock Exchange section-1)

URL : <https://corp.gmo-pg.com/en/ir/>

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